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REPORT OF THE BOARD OF AUDITORS TO THE GENERAL ASSEMBLY ON THE ACCOUNTS OF THE VOLUNTARY FUNDS ADMINISTERED BY THE UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES FOR THE PERIOD ENDED 31 DECEMBER 1997

Addendum 1 - Measures taken or proposed in response to the recommendations in the Report of the Board of Auditors to the General Assembly on the Accounts of the Voluntary Funds administered by the United Nations High Commissioner for Refugees for the year ended 31 December 1997.

GE.98-02619

I. INTRODUCTION

1. In accordance with paragraph 10 of General Assembly resolution 47/211 of 23 December 1992, the following is a report on measures taken or to be taken by UNHCR in response to the Recommendations of the Board of Auditors, as set out in paragraph 11 of their Report (A/AC.96/901). Unless indicated otherwise, all references in the text relate to this document.

Financial management

II. RECOMMENDATION 11 (a)

2. Review the present method of recognition of income so that its accounting policies and practices follow the United Nations Accounting Standards (para. 16).

Measures Taken by the Administration

One of the fundamental accounting assumptions contained in the general framework of the United Nations Accounting Standards (UNAS) is that an accrual basis of accounting for revenue is used, i.e. income is recognized when it is due and not when it is received. Accordingly, UNHCR follows the accrual basis of accounting for revenue and for expenditure, which provides for proper matching of revenues and costs. This is also in accordance with the Generally Accepted Accounting Principles (GAAP) and International Accounting Standards (IAS).

Paragraph 35 of the UNAS states, however, that voluntary contributions to fund specific activities should only be recorded when received (cash basis of accounting). The current UNHCR system for recording income for Special Programmes is in accord with its Financial Rules approved by the Executive Committee of the High Commissioner's Programme. The application of the cash basis of accounting to Special Programmes would have the following implications for UNHCR:

(a) UNHCR will not be able to undertake any of its other mandated activities, referred to as Special Programmes, until the cash is actually received. This will severely hamper the ability of the High Commissioner to finance these programmes and is likely to cause ineffective and inefficient operations, as the delay in receiving cash may require programmed activities to stop, then restart, then stop and restart again. This approach would represent a backward step in terms of the efficient and effective use of pledged resources.

(b) For UNHCR there is no difference in the collection rate or pattern between Special Programme pledges and General Programme pledges which would justify recording income on a different basis. Good accounting practice requires income to be recognized when it can be measured reliably and it has a sufficient degree of certainty. Both of these criteria justify recognition of Special Programme pledges at the time the pledge is received.

(c) A consequence of following the audit observation would be that the accounting rules for recognition of income under General and Special Programmes would be different. Having two income recognition rules will add unnecessarily to the complexity of UNHCR's internal accounting procedures.

In view of the above, UNHCR will request guidance from the ACABQ and its Executive Committee on the Board of Auditor's recommendation. UNHCR is of the opinion that its current practice, which is in accord with its Financial Rules, also corresponds to donors' intentions. UNHCR is also of the opinion that the GAAP and IAS do not distinguish as to the purpose of a contribution for its recognition as income.

III. RECOMMENDATION 11 (b)

3. Focus attention on timely review and cancellation of obligations no longer required (para. 32).

Measures Taken by the Administration

As mentioned in UNHCR's reply to the same recommendation made for the 1996 year, the recently established Project Unit has been made responsible for reviewing the obligations levels and ensuring that obligations are cancelled as soon as they are no longer required. Unliquidated obligations are constantly under review and amounts no longer needed are immediately cancelled. Progress in this regard is reflected in the continuing decrease in the amount remaining as unliquidated at the end of the year and the percentage it represents as compared to total expenditures for the same year.

Notwithstanding these improvements, UNHCR will request its field offices, in the year-end closing instructions, to set out well-founded arguments when requesting the retention of unliquidated obligations. In the absence of such well-founded reasons, cancellations will be effected automatically at the year-end closure of accounts.

Management issues

IV. RECOMMENDATION 11 (c)

4. Ensure timely submission of sub-project monitoring reports and ensure that funds are disbursed to the implementing partners only when required (para. 43).

Measures Taken by the Administration

Once project activities begin, implementing partners must submit sub-project monitoring reports when requesting an instalment. For a variety of reasons, implementing partners sometimes face difficulties in submitting this report quickly. Such problems include budgeting in more than one currency, (whereby agencies may have to report in a local currency at the project site and in a second currency from their headquarters) and delays in receiving final invoices from vendors. UNHCR recognizes, however, that the problems resulting from late receipt of financial reports have increased as the number of implementing partners has grown and is taking the following steps to overcome them:

(a) A database has been established to monitor certain aspects of the performance of NGO partners, including their ability to submit audit certificates and timely financial reports. If agencies are unable to meet their contractual responsibilities in this regard, UNHCR will not sign subsequent agreements with them.

(b) UNHCR has already decided to withhold instalments, as of September 1998, to those agencies which have not complied with the initial request to submit the basic information needed for the establishment of the above-mentioned database.

V. RECOMMENDATION 11 (d)

5. Monitor more closely the timing of project delivery, particularly in those projects which are time critical (para. 58).

Measures Taken by the Administration

There are many reasons why original project objectives have not always been met. Funds are often received late, which delays both the signing of sub-agreements and their subsequent implementation. Other reasons are due to the often difficult working conditions in which refugee programmes are implemented. This is particularly true for construction projects where problems of land ownership, lack of materials, an unskilled work force, fluctuating prices and unsuitable weather conditions combine to make a 12 month project cycle often unrealistically short. UNHCR will continue to balance beneficiary needs against what can realistically be achieved when setting objectives, but targets will not always be met for complex initiatives in problematic areas.

Other delays in project implementation have been due to UNHCR's internal procedures. These have largely been addressed and improvements made. The time required to prepare and dispatch Letters of Instruction has been significantly shortened. The programme cycle was changed in 1997 to facilitate this. Budget decisions are now taken early in the year to allow sufficient time to prepare implementing instruments. Field offices now have greater flexibility to revise budgets locally, which reduces the need to submit amendments back to Headquarters. The circulation procedures at Headquarters for new and revised Letters of Instruction have also been shortened. In the future, there should be few, if any, difficulties in having Letters of Instruction received in field offices by the beginning of each year, unless there are no funds available or there have been developments at the end of the preceding year which significantly changed the project objectives.

VI. RECOMMENDATION 11 (e)

6. Take prompt and effective steps to ensure that adequate sex/age disaggregated statistics are collected and used in the formulation of programmes for women (para. 64).

Measures Taken by the Administration

The establishment of any assistance programme is based on the needs of the population, including women and children. For example, in a camp situation, those responsible for programmes concerning the nutritional status of children, vaccination or reproductive health collect the necessary information, including statistics on women and children, to establish, monitor and evaluate their programmes. Therefore, the sex and age distribution is known for most of the refugees who are living in developing countries where they are assisted by or through UNHCR. Increasingly, refugee statistics by sex and age groups are made available through UNHCR's reporting to the Executive Committee and in other documentation (see, for instance, Refugees

and Others of Concern to UNHCR, 1997 Statistical Overview, Tables 7 to 12). The use of sex disaggregated information in programme planning is encouraged, inter alia, through the People Oriented Planning training programme and will be enhanced by the new Operations Management System (OMS) planning and implementation mechanisms. However, in most of the more developed countries where Governments are responsible for refugee registration and assistance, refugee statistics disaggregated by sex and age are usually not made available and/or not reported to UNHCR.

VII. RECOMMENDATION 11 (f)

7. Encourage all field offices to respond to the High Commissioner's request so that it can make a full assessment of the work required and funds needed to implement the Machel report on refugee children (para. 69).

Measures Taken by the Administration

In June 1998, a memorandum was issued to all Representatives and Chiefs of Mission requesting that they provide a progress report on the implementation of their country-based Machel Study plans of action. As of 14 August 1998, 57 responses had been received indicating the level to which offices had managed to address these issues in their country programmes. Further steps have been taken to improve this response rate.

In the progress reports, numerous offices indicated that given the 1998 funding shortfall, they had to reduce their operational budgets, thereby curtailing Machel Study-related activities. Some country programmes, particularly those with major ongoing child protection concerns, have managed to maintain a priority focus on these issues, despite diminished resources. Rwanda, though obliged to reduce its budget by 45 per cent, has maintained extensive programmes for unaccompanied children, as have Burundi and the Democratic Republic of the Congo.

A $ 4.23 million contribution from the United States Government has been especially helpful in ensuring implementation of Machel Study plans of action, in full partnership with non-governmental organizations (NGOs). These funds resulted from congressional legislation in the United States which appropriated up to $ 5 million in 1998 to support programmes initiated through UNHCR for at-risk refugee children. Contributions from Denmark, Norway, Sweden and the United States also enabled the Office to develop additional efforts linked to UNHCR's Machel Study follow-up strategy, including the establishment of four Regional Policy Officers for Refugee Children, the Action for the Rights of Children training programme, and conflict resolution and peace education initiatives. Similar contributions will be required to continue these efforts into 1999, allowing UNHCR compliance with the Board of Auditor's recommendation.

VIII. RECOMMENDATION 11 (g)

8. Develop a comprehensive monitoring and evaluation system to ensure that the concerns envisaged in the environmental policy are addressed adequately (para. 75).

Measures Taken by the Administration

Efforts are being made to ensure that environmental concern is appropriately incorporated in the field operations through the inclusion of environmental components in the OMS tools, provision of environmental training to the staff of UNHCR and its implementing partners (starting in October 1998), promoting field model environmental projects, supporting field environmental workshops and deploying field environmental coordinators.

The Environment Unit has been able to monitor and evaluate environmental initiatives at the field level through the above mentioned activities. A more comprehensive monitoring and evaluation system, however, is needed and will be developed as follows:

(a) The Environment Unit will initiate a survey this autumn to ask relevant field offices how the Environmental Guidelines respond to their operational needs. This survey will cover all the field offices where environmental problems are envisaged, including the field offices not covered by the above mentioned activities.

(b) Depending on the result of the above mentioned survey, it is also planned to establish a mechanism to more systematically monitor and evaluate the implementation of the environmental policy and Guidelines.

IX. RECOMMENDATION 11 (h)

9. Take prompt action to complete the installation of MINDER in all field offices and implement all aspects of the system, so that the records correctly reflect the assets held by UNHCR and with the implementing partners, and improve the control over the physical assets (para. 90).

Measures Taken by the Administration

UNHCR has conducted an analysis of the available data and the results show that approximately 90 per cent of the unrecorded assets are in 13 countries. The problem not only lies in the installation of MINDER but also in the physical check of inventory, or, more specifically, the lack of manpower for a full time initial input/physical check of inventory. In the first phase, a two man task force (one MINDER expert and one physical checker) will undertake a mission to each of the identified countries with a focus on carrying out a physical check of all assets and the setting up MINDER, including both the installation and on the job input and training. The cost of these missions is estimated at $ 200,000 which is a minimal cost in comparison with the benefit to UNHCR. In a parallel phase, the Asset Management Unit (AMU) will follow-up from Headquarters on a scheduled basis with the smaller country offices to ensure completion of their physical check and MINDER installation (i.e. focus on one country per week until fully completed). Additionally, guidelines on a systematic approach to asset management will be produced (i.e. mandatory annual physical inspection, submission of diskettes to Headquarters for consolidation, and write-off procedures for items found missing during physical checks). In the second phase, regional training will take place for all country offices worldwide, not only to reinforce the training and procedures, but also to receive feedback from the field and make adjustments where appropriate.

Funding will be secured within existing resources and the plan will be implemented within the next six to eight months. The AMU will soon start preparatory planning, such as briefing the Task Force, preparing MINDER technical requirements and working with each country office to finalize mission plans.

X. RECOMMENDATION 11 (i)

10. Ensure that all systems are tested for Year 2000 compliance with sufficient lead time to address any deficiencies (para. 99).

Measures Taken by the Administration

The Year 2000 compliance activities commenced at UNHCR approximately one year ago. Activities were grouped around six main areas: personnel computers, networks, core (host) systems, field systems, Intranet and telecommunications.

Significant work has already been completed in the field where computer systems have been checked and, where necessary, are being upgraded. Good progress is also being made in core systems at Headquarters. Many are in test stages. Field systems efforts are progressing steadily, in spite of limited resources. The area of concern is in relation to networking where plans for upgrading to Windows 95 and Netware 4x (compliant versions) are still being finalized.

The Office is confident, however, that system changes should be completed by the third quarter of 1999.

XI. OTHER SPECIAL AUDIT ISSUES

11. While the following issues were not raised by the Board of Auditors as specific recommendations requiring formal response and reporting, UNHCR is of the opinion that they merit some comment and that the views of the Executive Committee need to be sought.

Biennial reporting

12. In paragraph 18 of their Report, the Board of Auditors recalled that the General Assembly at its 52nd session endorsed the recommendation of the Advisory Committee on Administrative and Budgetary Questions for UNHCR to consult with the Board of Auditors on the implications of submitting biennial reports instead of annual reports.

13. Under the current reporting arrangements, most United Nations Organizations report on a biennial basis, except for UNHCR, UNITAR and United Nations Peace Keeping Operations, which report on an annual basis. In the case of UNHCR, this annual reporting is in conformity with the existing Financial Rules for the Office.

14. UNHCR reports annually to its Executive Committee, including the presentation of Financial Statements for the year just elapsed. For Financial Statements to be complete and meaningful, they must be audited and an Audit Opinion issued. This represents a safeguard for donors, whereby funds received by UNHCR are certified as having been used for the purposes designated by donors, and, in addition, that the Financial Statements present fairly the financial position of the Organization at the end of the fiscal year.

15. UNHCR would appreciate guidance from the Executive Committee before engaging in further consultations with the Board of Auditors on this matter.

Implementing partners audit certification

16. In paragraph 21 of the Report of the Board of Auditors, the Board of Auditors recognize the progress made by UNHCR in securing the audit certificates to support advances made in earlier years. Nevertheless, the Board of Auditors have suggested that UNHCR should consider a further tightening of the six month time-frame for their submission. In conference room paper EC/48/SC/CRP.41, presented to the thirteenth meeting of the Standing Committee of the Executive Committee, a comprehensive update of actions taken on this matter was provided. Paragraph 7 of this conference room paper deals specifically with the time-frame issue.

17. UNHCR maintains that it is unreasonable, for a range of operational reasons, to request that implementing partner audit certificates be submitted in time for the Board of Auditors to be able to review them at the time that it carries out the audit of UNHCR for a given year. UNHCR recognizes that the availability of audit certificates at the time of the annual audit would facilitate the work of auditors in focusing their examinations. It should be recalled, however, that the accounts of UNHCR's implementing partners are accessible for examination by UNHCR's external and internal auditors at all times. Given the auditors' right to access such accounts, the audit certification of UNHCR should not be made contingent on the number of audit certificates available at the time of the audit exercise. UNHCR is committed to the submission of audit certificates by implementing partners, but within reasonable time-frames (which vary for the various categories of implementing partners), as indicated in the project agreements. The views of the Executive Committee would be appreciated on this issue.

Recording of advances to implementing partners

18. In the Report of the Board of Auditors for 1996 and paragraph 22 of this years' Report, the Board of Auditors noted the progress made by UNHCR in reconciling the amounts outstanding in "the memorandum suspense account" where UNHCR records advances to implementing partners from whom financial reports are due.

19. In this regard, the current situation is as follows:

(a) For projects implemented during the period from 1994 to 1996, the balance at 15 August 1998 was $ 61.3 million, as compared to $ 76.8 million when the audit report was issued and to $ 442.6 million as at 30 June 1997.

(b) For 1997 projects, the balance of $ 176.63 million reported by the Board of Auditors has been reduced to $ 86.4 million.

20. UNHCR is pleased to report to the Executive Committee that the unreconciled balances will be further reduced in the course of the year and that action to review the recording system of advances made to implementing partners has been initiated.